

CITY OF MONTEZUMA, IOWA  
INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2006



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## CITY OF MONTEZUMA, IOWA

### CITY OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January, 2006)</b>		
James M. Hicks	Mayor	January, 2008
Frank R. Brownell, III	Mayor Pro Tem	January, 2008
Ronald Willrich	Council Member	January, 2008
Ronald Hedrick	Council Member	January, 2008
Mark Bolen	Council Member	January, 2006
Donald Vos	Council Member	January, 2006
<b>(After January, 2006)</b>		
James M. Hicks	Mayor	January, 2008
Frank R. Brownell, III	Mayor Pro Tem	January, 2008
Ronald Willrich	Council Member	January, 2008
Ronald Hedrick	Council Member	January, 2008
Mark Bolen	Council Member	January, 2010
Donald Vos	Council Member	January, 2010
Meryll Hicks	Clerk/Treasurer	Indefinite
William J. Sueppel	Attorney	Indefinite

**Van Maanen  
& ASSOCIATES, P.C.**

**Certified Public Accountants**

705 Main St.  
Pella, IA 50219  
641-628-3737

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:  
City of Montezuma  
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and aggregate remaining fund information of the City of Montezuma, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Montezuma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Governmental Auditing Standards, we have also issued our report dated October 5, 2006, on our consideration of the City of Montezuma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 9 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. Another CPA firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 and we audited the financial statements for the year ended June 30, 2005 (none of which are presented herein) and all expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

October 5, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Montezuma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 28%, or approximately \$339,000, from fiscal 2005 to fiscal 2006. There was approximately \$382,000 less received in public donations. The drive for the library occurred in the prior year. Charges for service and general receipts were both up slightly.
- Disbursements decreased 17.4%, or approximately \$180,000 from fiscal 2005 to fiscal 2006. Culture and recreation disbursements decreased approximately \$273,027 primarily due to the new library in the prior year, while public safety increased approximately \$101,000 primarily due to the purchase of an ambulance.
- The City's total cash basis net assets increased 0.9%, or approximately \$28,000 from June 30, 2005 to June 20, 2006. Of this amount, the assets of the governmental activities increased approximately \$23,000 and the assets of the business type activities decreased by approximately \$5,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about indebtedness and a comparative schedule of receipts and disbursements.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, general governmental and debt service. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water, sewer, recycling, and gas systems. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide information for the water, sewer, recycling, and gas funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.



Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased. The analysis that follows focuses on the changes in cash balances for the governmental activities.

<b>Changes in Cash Basis Net Assets of Governmental Activities</b> <b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 94	82
Operating grants, contributions and restricted interest	140	161
Capital grants, contributions and restricted interest	30	380
General receipts:		
Property tax	476	459
Tax increment financing	44	47
Other city taxes	-	1
Grants and contributions not restricted to specific purposes	22	-
Unrestricted interest earnings	-	17
Miscellaneous	70	68
Total receipts and transfers	876	1,215
Disbursements:		
Public safety	261	159
Public works	193	202
Health and social services	-	3
Culture and recreation	126	399
General government	103	100
Debt service	170	170
Total disbursements	853	1,033
Increase (decrease) in cash basis net assets	23	182
Cash basis net assets beginning of year	1,562	1,380
Cash basis net assets end of year	\$ 1,585	1,562

The City's total receipts for governmental activities decreased by 28%, or \$339,000. The total cost of all programs and services decreased by approximately \$180,000, or 17%.

The cost of all governmental activities this year was \$853,000 compared to \$1,033,000 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$589,000 because some of the cost was paid by those directly benefiting from the programs (\$94,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$170,000).

<b>Changes in Cash Basis Net Assets of Business Type Activities</b> <b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 405	374
Sewer	77	74
Recycling	57	56
Gas	1,517	1,288
General receipts:		
Unrestricted interest earnings	53	21
Other general receipts	15	4
Total receipts	<u>2,124</u>	<u>1,817</u>
Disbursements and transfers:		
Water	412	367
Sewer	95	61
Recycling	54	55
Gas	1,558	1,378
Total disbursements and transfers:	<u>2,119</u>	<u>1,861</u>
Increase (decrease) in cash balance	5	(44)
Cash basis net assets beginning of year	<u>1,621</u>	<u>1,665</u>
Cash basis net assets end of year	<u>\$ 1,626</u>	<u>1,621</u>

Total business type activities receipts for the fiscal year were \$2.124 million compared to \$1.817 million last year. Total disbursements and transfers for the fiscal year increased by 14% to a total of \$2.119 million.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Montezuma completed the year, its governmental funds reported a combined fund balance of \$1,585,075, an increase of more than \$23,000 from last year's total of \$1,561,854. The following is the major reason for the change in fund balance from the prior year:

- The General Fund increased by \$60,527 to \$880,643 during the fiscal year.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$13,849 to \$442,424, due primarily to a larger increase in revenues than expenditures.
- The Sewer Fund cash balance decreased by \$10,057 to \$302,357, because the revenues decreased more than the expenditures.
- The Gas Fund cash balance decreased by \$2,795 to \$837,658 due to a larger increase in expenditures than revenues.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment increased business type activities disbursements for the gas department by \$154,000.

## DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$621,000 in bonds and other long-term debt, compared to approximately \$833,000 last year, as shown below.

<b>Outstanding Debt at Year-End (Expressed in Thousands)</b>		
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
General obligation bonds	\$ 340	475
Urban renewal tax increment financing revenue bonds	176	203
Revenue notes, water	105	155
Total	<u>\$ 621</u>	<u>833</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's debt subject to the City's constitution debt limit is \$516,000, which is significantly below its total calculated constitutional debt limit of \$2 million.

Debt decreased due to regularly scheduled payments of the obligations.

## COMPONENT UNIT

The separately issued financial statements for the Montezuma Light and Power Plant, listed as a component unit on these financial statements, is also available by contacting Meryll Hicks, City Clerk, at the address listed below.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Meryll Hicks, City Clerk, 501 East Main St., Box 314, Montezuma, Iowa.

**City of Montezuma, Iowa**

## **Basic Financial Statements**

CITY OF MONTEZUMA, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
As of and for the year ended June 30, 2006

		Program Receipts		
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	Disbursements	Service		
<b>Functions/Programs:</b>				
Primary government:				
Governmental activities:				
Public safety	\$ 260,458	88,814	-	7,940
Public works	193,131	-	122,378	-
Health and social services	-	-	-	-
Culture and recreation	126,386	3,224	17,498	6,312
General government	103,364	1,801	-	16,111
Debt service	169,962	-	-	-
Total governmental activities	853,301	93,839	139,876	30,363
Business type activities:				
Water	411,450	404,775	-	-
Sewer	95,152	76,917	-	-
Recycling	54,020	56,715	-	-
Gas	1,558,172	1,516,608	-	-
Total business type activities	2,118,794	2,055,015	-	-
Total primary government	\$ 2,972,095	2,148,854	139,876	30,363
Component Unit:				
Municipal Light and Power Plant	\$ 3,795,016	2,050,008	-	-
Total Component Unit	\$ 3,795,016	2,050,008	-	-
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Other taxes				
Unrestricted interest on investments				
Contributions to permanent endowment				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Debt service/improvements				
Permanent endowment fund:				
Nonexpendable				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
(163,704)	-	(163,704)	-
(70,753)	-	(70,753)	-
-	-	-	-
(99,352)	-	(99,352)	-
(85,452)	-	(85,452)	-
(169,962)	-	(169,962)	-
(589,223)	-	(589,223)	-
-	(6,675)	(6,675)	-
-	(18,235)	(18,235)	-
-	2,695	2,695	-
-	(41,564)	(41,564)	-
-	(63,779)	(63,779)	-
(589,223)	(63,779)	(653,002)	-
-	-	-	(1,745,008)
-	-	-	(1,745,008)
\$ 346,553	-	346,553	-
43,733	-	43,733	-
129,469	-	129,469	-
-	-	-	-
22,546	53,105	75,651	119,096
200	-	200	-
69,943	15,134	85,077	-
612,444	68,239	680,683	119,096
23,221	4,460	27,681	(1,625,912)
1,561,854	1,621,485	3,183,339	4,390,425
1,585,075	1,625,945	3,211,020	2,764,513
68,114	74,468	142,582	653,200
1,000	-	1,000	-
1,515,961	1,551,477	3,067,438	2,111,313
\$ 1,585,075	1,625,945	3,211,020	2,764,513

CITY OF MONTEZUMA, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 GOVERNMENTAL FUNDS  
 As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Urban
			Renewal Tax Increment
Receipts:			
Property tax	\$ 346,553	-	-
Tax increment financing collections	-	-	43,733
Other city taxes	-	-	-
Licenses and permits	1,801	-	-
Use of money and property	25,108	-	-
Intergovernmental	163	122,378	-
Charges for service	89,033	-	-
Private contributions	31,587	-	-
Miscellaneous	69,943	-	-
Total receipts	564,188	122,378	43,733
Disbursements:			
Operating:			
Public safety	260,458	-	-
Public works	91,453	101,678	-
Health and social services	-	-	-
Culture and recreation	126,386	-	-
General government	103,364	-	-
Debt Service	-	-	8,374
Total disbursements	581,661	101,678	8,374
Excess of receipts over disbursements	(17,473)	20,700	35,359
Other financing sources (uses):			
Operating transfers in	78,000		
Operating transfers out			
Total other financing sources (uses)	78,000	-	-
Net change in cash balances	60,527	20,700	35,359
Cash balances beginning of year	820,116	86,512	29,180
Cash balances end of year	\$ 880,643	107,212	64,539
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service/improvement	\$ -	-	-
Klindt memorial	1,761	-	-
Unreserved:			
General Fund	878,882	-	-
Special revenue funds	-	107,212	64,539
Capital projects fund	-	-	-
Permanent endowment, library	-	-	-
Total cash basis fund balances	\$ 880,643	107,212	64,539

See notes to financial statements.



Exhibit B

Capital Projects	Debt Service	Permanent Fund	Total
-	129,469	-	476,022
-	-	-	43,733
-	-	-	-
-	-	-	1,801
16,111	443	-	41,662
-	-	-	122,541
-	-	-	89,033
-	-	200	31,787
-	-	-	69,943
16,111	129,912	200	876,522
-	-	-	260,458
-	-	-	193,131
-	-	-	-
-	-	-	126,386
-	-	-	103,364
-	161,588	-	169,962
-	161,588	-	853,301
16,111	(31,676)	200	23,221
			78,000
(78,000)			(78,000)
(78,000)	-	-	-
(61,889)	(31,676)	200	23,221
525,456	99,790	800	1,561,854
463,567	68,114	1,000	1,585,075
-	68,114	-	68,114
-	-	-	1,761
-	-	-	878,882
-	-	-	171,751
463,567	-	-	463,567
-	-	1,000	1,000
463,567	68,114	-	1,584,075

Exhibit C

CITY OF MONTEZUMA, IOWA  
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
GOVERNMENTAL FUNDS  
As of and for the year ended June 30, 2006

<b>Total governmental funds cash balances (Exhibit A)</b>	<u>\$ 1,585,075</u>
<b>Cash basis net assets of governmental activities (Exhibit B)</b>	<u><u>\$ 1,585,075</u></u>
<b>Net change in cash balances (Exhibit B)</b>	<u>\$ 23,221</u>
<b>Change in cash balance of governmental activities (Exhibit A)</b>	<u><u>\$ 23,221</u></u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
As of and for the year ended June 30, 2006

	Enterprise Funds				Total
	Water	Sewer	Recycling	Gas	
Operating receipts:					
Charges for service	\$ 404,775	76,917	56,715	1,516,608	2,055,015
Miscellaneous	3,265	-	-	11,869	15,134
Total operating receipts	408,040	76,917	56,715	1,528,477	2,070,149
Operating disbursements:					
Business type activities	353,820	62,319	54,020	1,558,172	2,028,331
Total operating disbursements	353,820	62,319	54,020	1,558,172	2,028,331
Excess (deficiency) of operating receipts over (under) operating disbursements	54,220	14,598	2,695	(29,695)	41,818
Non-operating receipts (disbursements):					
Interest on investments	17,259	8,178	768	26,900	53,105
Debt service	(57,630)	(32,833)	-	-	(90,463)
Total non-operating receipts (disbursements)	(40,371)	(24,655)	768	26,900	(37,358)
Excess (deficiency) of receipts over (under) disbursements	13,849	(10,057)	3,463	(2,795)	4,460
Net change in cash balances	13,849	(10,057)	3,463	(2,795)	4,460
Cash balances beginning of year	428,575	312,414	40,043	840,453	1,621,485
Cash balances end of year	\$ 442,424	302,357	43,506	837,658	1,625,945
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ 74,468	-	-	-	74,468
Unreserved	367,956	302,357	43,506	837,658	1,551,477
Total cash basis fund balances	\$ 442,424	302,357	43,506	837,658	1,625,945

See notes to financial statements.

Exhibit E

CITY OF MONTEZUMA, IOWA  
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
PROPRIETARY FUNDS  
As of and for the year ended June 30, 2006

<b>Total enterprise funds cash balances (Exhibit D)</b>	<u>\$ 1,625,945</u>
<b>Cash basis net assets of business type activities (Exhibit A)</b>	<u><u>\$ 1,625,945</u></u>
<b>Net change in cash balances (Exhibit D)</b>	<u>\$ 4,460</u>
<b>Change in cash balance of business type activities (Exhibit A)</b>	<u><u>\$ 4,460</u></u>

See notes to financial statements.

## Exhibit F

CITY OF MONTEZUMA, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 COMPONENT UNIT  
 As of and for the year ended June 30, 2006

	<u>Municipal Light and Power Plant</u>
Operating receipts:	
Charges for service	\$ 2,048,297
Miscellaneous	-
Total operating receipts	<u>2,048,297</u>
Operating disbursements:	
Business type activities	<u>3,355,242</u>
Total operating disbursements	<u>3,355,242</u>
Deficiency of operating receipts under operating disbursements	(1,306,945)
Non-operating receipts (disbursements):	
Rental income	1,711
Interest on investments	119,096
Debt service	(435,048)
Rental expenses	(4,726)
Total non-operating receipts (disbursements)	<u>(318,967)</u>
Deficiency of receipts under disbursements	<u>(1,625,912)</u>
Net change in cash balances	(1,625,912)
Cash balances beginning of year	<u>4,390,425</u>
Cash balances end of year	<u>\$ 2,764,513</u>
<b>Cash Basis Fund Balances</b>	
Reserved for debt service/improvements	\$ 653,200
Unreserved	<u>2,111,313</u>
Total cash basis fund balances	<u>\$ 2,764,513</u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
June 30, 2006

	<u>Agency</u>
<b>Assets</b>	
Cash and investments	\$ 2,809
<b>Total assets</b>	<u>2,809</u>
<b>Liabilities</b>	
Accounts payable	<u>2,809</u>
<b>Total liabilities</b>	<u>2,809</u>
<b>Net assets</b>	<u>\$ -</u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**(1) Summary of Significant Accounting Policies**

The City of Montezuma is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and gas utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Montezuma has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Montezuma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

**Discretely Presented Component Unit**

The Montezuma Municipal Light and Power Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a three member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board and Poweshiek County Joint E911 Service Board.

**B. Basis of Presentation**

**Government-wide Financial Statements** - The Statement of Activities and Net Assets report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

CITY OF MONTEZUMA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

The Statement of Activities and Net Assets does not include fiduciary funds or component units that are fiduciary in nature. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, but can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

The Permanent Fund is used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.



CITY OF MONTEZUMA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Recycling Fund accounts for the operation and maintenance of the City's recycling program.

**C. Measurement Focus and Basis of Accounting**

The City of Montezuma maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

The only restricted net assets available for current expenses are those built up in the sinking funds which are meant to be used for debt payments. Those are described in note 3(b). None of the other restricted net assets are available for current expenses.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Included in the June 30, 2006 general fund cash is \$29,606 in regular library donations and \$1,000 in library endowment donations, both held in trust by the Montezuma Community Foundation. The \$29,606 is available for use by the library whenever requested by the library board. The \$1,000 may not be spent; only earnings from those contributions will be available.

CITY OF MONTEZUMA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

At June 30, 2006 the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Certificate of deposit	\$ 26,824	26,824	October-08
Certificate of deposit	\$ 20,397	20,397	September-08
Certificate of deposit	30,000	30,000	September-06
Certificate of deposit	45,000	45,000	December-06
Certificate of deposit	20,000	20,000	January-07
Total	<u>\$ 142,221</u>	<u>142,221</u>	

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,188,189 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, tax increment financing revenue bonds and revenue notes are as follows:

Year ending June 30,	General Obligation Notes		Tax Increment Financing (TIF) Bonds		Water Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 135,000	16,838	30,000	14,740	50,000	4,468	215,000	36,046
2008	145,000	10,360	32,000	12,410	55,000	1,540	232,000	24,310
2009	30,000	3,345	35,000	9,690	-	-	65,000	13,035
2010	30,000	1,680	38,000	6,715	-	-	68,000	8,395
2011	-	-	41,000	3,485	-	-	41,000	3,485
Total	<u>\$ 340,000</u>	<u>32,223</u>	<u>176,000</u>	<u>47,040</u>	<u>105,000</u>	<u>6,008</u>	<u>621,000</u>	<u>85,271</u>

The Urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

CITY OF MONTEZUMA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

- b) Sufficient monthly transfers shall be made to separate electric and water revenue note sinking accounts within the City's Enterprise Funds and component unit for the purpose of making the note principal and interest payments when due. At June 30, 2006, the sinking fund requirement for the electric fund was \$146,425, and the water fund \$54,468.
- c) An electric reserve account of \$439,275 shall be maintained within the Enterprise Funds until all 1999 notes have been paid in full. The required water reserve account as of June 30, 2006 was \$20,000.
- d) A requirement of the March, 2004 electric revenue note is for the deposit of \$2,500 on the first day of each month to an electric improvement account. As of June 30, 2006, 27 payments were required for a total of \$67,500.

**(4) Pension and Retirement Benefits**

The City of Montezuma contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004, were \$17,627, \$16,382, and \$16,075, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2006 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$10,402

This liability has been computed based on current rates of pay.

**(6) Interfund transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Capital Projects	\$78,000

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources. These funds were transferred to pay for an ambulance paid through the general fund.

CITY OF MONTEZUMA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**(7) Transactions Between the City and the Component Unit**

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ (25,403)	-
Water Dept. Billing/Meter Reading	(27,003)	-
Gas Dept. Electric Use	(188)	-
Gas Dept. Billing/Meter Reading	(25,063)	-
General City Electric Use	(47,044)	-
General City Repair Costs	(697)	-
Power Plants - Taxes in lieu	-	39,493
Power Plant - Gas and rock costs	-	4,917
Totals	<u>\$ (125,398)</u>	<u>44,410</u>

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$4,128 during the year ended June 30, 2006.

**(9) Risk Management**

The City of Montezuma is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Commitments and Contingencies**

On September 4, 2002, the City of Montezuma Light and Power Plant entered into a joint ownership agreement with Mid-American Energy and thirteen other municipalities to construct and operate a coal-fired steam electric generating unit in Pottawattamie County, Iowa. The total project cost is approximately \$1,265,000,000 and the City has committed to an investment of approximately \$5,000,000. This commitment will be funded from October, 2002 through December, 2007, as construction progresses. During the fiscal year ending June 30, 2006, \$1,547,000 was advanced; the total that has been paid to date to fund the project is \$3,098,495. The City of Montezuma Light and Power Plant issued \$5,150,000 of long-term bonds to finance this project.

### **Required Supplementary Information**

CITY OF MONTEZUMA, IOWA  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS - REQUIRED SUPPLEMENTARY INFORMATION  
Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 476,022	-	476,022
Tax increment financing collections	43,733	-	43,733
Other city tax	-	-	-
Licenses and permits	1,801	-	1,801
Use of money and property	41,662	53,105	94,767
Intergovernmental	122,541	-	122,541
Charges for services	89,033	2,055,015	2,144,048
Private contributions	31,787	-	31,787
Miscellaneous	69,943	15,134	85,077
Total receipts	876,522	2,123,254	2,999,776
Disbursements:			
Public safety	260,458	-	260,458
Public works	193,131	-	193,131
Health and social services	-	-	-
Community & Economic Development	-	-	-
Culture and recreation	126,386	-	126,386
General government	103,364	-	103,364
Debt service	169,962	90,463	260,425
Business type activities	-	2,028,331	2,028,331
Total disbursements	853,301	2,118,794	2,972,095
Excess of receipts over disbursements	23,221	4,460	27,681
Balances beginning of year	1,561,854	1,621,485	3,183,339
Balances end of year	\$ 1,585,075	1,625,945	3,211,020

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
460,585	460,585	15,437
44,000	44,000	(267)
623	623	(623)
1,170	1,170	631
30,000	30,000	64,767
118,000	118,000	4,541
1,767,500	2,017,500	126,548
-	-	31,787
60,000	60,000	25,077
2,481,878	2,731,878	267,898
285,460	285,460	25,002
271,049	271,049	77,918
4,000	4,000	4,000
2,660	2,660	2,660
105,520	105,520	(20,866)
119,100	119,100	15,736
169,963	169,963	(90,462)
1,677,255	1,831,255	(197,076)
2,635,007	2,789,007	(183,088)
(153,129)	(57,129)	84,810
8,682,666	8,682,666	(5,499,327)
8,529,537	8,625,537	(5,414,517)

CITY OF MONTEZUMA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
June 30, 2006

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budget disbursements by \$154,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.



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### **Other Supplementary Information**

CITY OF MONTEZUMA, IOWA  
SCHEDULE OF INDEBTEDNESS  
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds:									
Sewer	5/1/2000	5.0-5.6%	\$240,000	\$ 135,000	-	25,000	110,000	7,432	507
Street	7/1/1998	4.25-4.7%	980,000	340,000	-	110,000	230,000	15,815	896
				<u>\$ 475,000</u>	<u>-</u>	<u>135,000</u>	<u>340,000</u>	<u>23,247</u>	<u>1,403</u>
Urban renewal tax increment financing:									
(TIF) Revenue bonds	2/22/1995	8.00-8.50%	\$370,000	\$ 203,000	-	27,000	176,000	16,748	1,210
Revenue bonds:									
Water	7/1/1997	5.25-5.6%	\$ 430,000	\$ 155,000	-	50,000	105,000	7,230	2,440

## Schedule 2

CITY OF MONTEZUMA, IOWA  
BOND AND NOTE MATURITIES  
Year ended June 30, 2006

Year Ending June 30,	General Obligation Bond/Notes				Revenue Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Sewer		Street		Water			
	Issued 5-1-2000		Issued 7-1998		Issued 7-1-1997		Issued 2-22-1995	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	5.45%	\$ 25,000	4.65%	\$ 110,000	5.55%	\$ 50,000	8.50%	\$ 30,000
2008	5.50%	25,000	4.70%	120,000	5.60%	55,000	8.50%	32,000
2009	5.55%	30,000					8.50%	35,000
2010	5.60%	30,000					8.50%	38,000
2011							8.50%	41,000
		<u>\$ 110,000</u>		<u>\$ 230,000</u>		<u>\$ 105,000</u>		<u>\$ 176,000</u>

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 June 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash	\$ -	9,000	6,191	2,809
<b>Liabilities</b>				
Accounts payable	\$ -	9,000	6,191	2,809

See accompanying independent auditor's report.

## Schedule 4

CITY OF MONTEZUMA, IOWA  
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FIVE YEARS

	2006	2005	2004	2003	2002
Receipts:					
Property tax	\$ 476,022	459,199	431,436	414,419	421,509
Tax increment financing collections	43,733	46,885	49,794	47,658	50,196
Other taxes	-	986	-	-	-
Use of money and property	41,662	29,397	19,891	17,747	11,849
Intergovernmental	122,541	122,047	136,597	159,142	161,796
Charges for service	89,033	74,911	88,461	83,344	44,109
Miscellaneous	103,531	481,620	77,702	55,858	39,129
Total	<u>\$ 876,522</u>	<u>1,215,045</u>	<u>803,881</u>	<u>778,168</u>	<u>728,588</u>
Disbursements:					
Operating:					
Public safety	\$ 260,458	159,325	178,665	150,188	138,109
Public works	193,131	201,900	262,332	225,916	209,845
Health and social services	-	2,500	6,730	-	-
Culture and recreation	126,386	399,413	121,897	80,391	95,573
General government	103,364	100,203	102,222	95,043	94,958
Debt service	169,962	169,803	169,098	124,620	123,580
Total	<u>\$ 853,301</u>	<u>1,033,144</u>	<u>840,944</u>	<u>676,158</u>	<u>662,065</u>

See accompanying independent auditor's report.



Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards

To the Honorable Mayor and Members of the City Council  
City of Montezuma  
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 5, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montezuma's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Montezuma's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma and other parties to whom the City of Montezuma may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

October 5, 2006



CITY OF MONTEZUMA, IOWA

SCHEDULING OF FINDINGS

Year Ended June 30, 2006

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**REPORTABLE CONDITIONS**

II-A-06      Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

CITY OF MONTEZUMA, IOWA

SCHEDULING OF FINDINGS

Year Ended June 30, 2006

**Part III: Other Findings Related to Statutory Reporting:**

- III-A-06      Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the budget in the culture and recreation, debt service, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Regarding the culture and recreation function, because the library board controls these expenditures we were unaware of the total expenditures. We will try to establish better communications with them in the future to be able to budget for all their expenditures. The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- III-B-06      Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-06      Travel Expense - No disbursements of City of Montezuma money for travel expenses of spouses of City officials or employees were noted.

- III-D-06      Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2006 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Jim's Heating and Air Conditioning	Materials and Labor	\$520
Doug Ver Meer, Light Plant Board Member, Owner, Vannoy Chevrolet	Repairs and Tires	\$3,231
Frank Brownell, Council Member, Owner, Brownells, Inc.	Shipping/Postage	\$376

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions with the mayor and councilman do not appear to represent conflicts of interest since total transactions with the individual were less than \$1,500 during the fiscal year. Transactions with the Light Plant Board member do appear to be in violation of the above stated chapter of the Code of Iowa.

CITY OF MONTEZUMA, IOWA

SCHEDULING OF FINDINGS

Year Ended June 30, 2006

Recommendation – Legal council should be consulted.

Response – We will consult legal council to resolve.

Conclusion – Response accepted.

III-E-06     Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

III-F-06     Council Minutes and Published Salaries - The published minutes should include the purpose for expenditures and a summary of all receipts.

Recommendation - The purpose of each expenditure should be added to the details of the published minutes. The minutes should include a summary of receipts.

Response - We will consider this.

Conclusion - Response accepted.

III-G-06     Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-H-06     Revenue Bonds and Notes - The City of Montezuma has established proper accounts as required by the City revenue note resolution.